Department of Finance

Government Money Purchase Pension Plan Committee

2008 Activity Report

June 2009

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Government Money Purchase Pension Plan
Administration Committee
P.O. Box 8700
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Honourable Jerome P. Kennedy, Q.C.
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL A1B 4J6

Dear Minister Kennedy:

As the Chair of the committee responsible for the Government Money Purchase Pension Plan (GMPP), I hereby submit the 2008 Annual Report for the Committee. The report was prepared under the Committee's direction and the Committee is accountable for the results contained herein.

The mandate of the GMPP Committee is to administer the GMPP including the appointment of an administrator/custodian, setting investment policy and monitoring plan performance.

The GMPP is a capital accumulation plan where retirement benefits are directly related to the amount of contributions and the income earned on those contributions throughout a plan member's career. Members have been given the option to choose a fund or combination of funds that best suits their individual retirement objectives, within personally acceptable risk tolerances. However, engaging members in the fund selection process is a major challenge and continues to be the main strategic issue for the GMPP Committee. Based on experience, most plan members have been reluctant to make any investment choice, and, instead are allowing their funds to be directed to the lower risk and usually lower return default investment.

In 2008, with Canadian and international investment markets experiencing significant declines in value, asset allocation was a challenge for all members. As detailed in this report, all market based funds, except the bond fund, experienced negative growth in 2008, impacting the values of the employees' investments in those funds. This demonstrates clearly that employees should be aware of both the potential risks and rewards of making an active decision and the possible impact of their return goals.

This annual report outlines the activity and the growth in assets and membership during 2008.

I am pleased to submit the 2008 Annual Activity report for your consideration.

Yours sincerely,

Laurie Skinner

Laurie Skinner
Chair of the GMPP Committee

OVERVIEW

The Government Money Purchase Pension Plan (GMPP) provides pension plan participation for part time employees and full time employees of public sector employers who are ineligible to participate in the full time plans. The GMPP Committee was established by the Lieutenant-Governor in Council to oversee the operations of the Government Money Purchase Pension Plan. Employer representatives are appointed by virtue of their positions in government, while employee representatives are appointed based on the recommendation of the various unions. Committee members are responsible to ensure that contributions accumulated to the credit of the employee are invested prudently in the investment classes prescribed by the Committee and to promote the plan and educate employees on the importance of taking an active interest in their investments.

In order to ensure that employee and employer contributions are invested prudently, the Committee has established and implemented a Statement of Investment Policies and Procedures which provides investment options to members including Guaranteed Investment Accounts and market based funds, namely, an equity fund, a bond fund, a global equity fund and a balanced fund.

To assist in fulfilling its mandate outlined below, the GMPP Committee has retained the services of Great West Life Insurance Company to fulfill the roles of both the custodian and administrator of the GMPP. The Committee also retains an investment consultant, Russell Investments Limited to assist the Committee in the design, implementation, and ongoing evaluation of all aspects of the pension investment program.

Phillips, Hager & North Investment Management Limited (PH&N) has been retained to manage all market based investment products and Mercer, government's consulting actuary, provides advice, as required, on various pension issues relating to compliance with pension legislation and the *Income Tax Act (Canada)*.

The financial security of plan members depends on a member's investment decision, which, in turn, depends on a member's investment profile and risk tolerance. It is critical that members take an active interest in their portfolio and make asset allocation decisions suited to their risk tolerance and retirement expectations.

MANDATE

The Committee's mandate, pursuant to the *Government Money Purchase Pension Plan Act,* is to administer the GMPP, including appointing an administrator/custodian, setting investment policy and monitoring plan performance.

LINES OF BUSINESS

Ensure that contributions accumulated to the credit of the employee are invested

prudently in the investment classes prescribed by the Committee in accordance with the Statement of Investment Polices and Procedures and to promote the plan and educate employees on the importance of taking an active interest in their investments.

VISION

The vision of the GMPP Committee is that all participating employees, using guidelines presented to them by the plan custodian, select an investment strategy suited to their retirement objectives with the ultimate goal to maximize the amount of pension funds available at retirement, but with a level of risk acceptable to the plan member.

VALUES

Inclusion: Each Member of the GMPP Committee acknowledges each others' views and perspectives and has the right/opportunity to express their own.

Independence: Each member, while representing the interest of diverse stakeholders, recognizes that the decisions of the GMPP Committee are in the best interest of all stakeholders.

PRIMARY CLIENTS AND STAKEHOLDERS

The primary clients and stakeholders for the GMPP Committee are the employees who participate in the plan.

MISSION

Consistent with its vision of engaging employees in the investment decision making process, the Committee's mission is to improve employee's participation in the investment selection process. Currently, less than 50 per cent of members make an active investment decision with respect to the funds they are contributing to the GMPP. Ideally, by 2010, the committee would like to see all members make an active decision with respect to their funds.

By 2010, the committee would like to see 75% of members make an active decision with respect to their funds.

Measure: More plan members making an investment choice
Indicators: Percentage of members making an active investment decision is increasing

KEY STATISTICS

Administration Costs

	2008	2007
Investment Management Costs (PH&N)	$ 219,703	$ 255,513
Russell Investments Limited	14,000	14,000
Annual Pension Plan Registration	7,500	7,500
Support Staff	36,574	36,309
Total Administration Costs	$ 277,777	$ 313,322

Since the inception of the GMPP, actuarial consulting and support staff costs have been paid from employer contributions that are forfeited when members who are not vested terminate from the plan and take a refund of their contributions. The balance in the forfeitures account as of December 31, 2008 was $1,169,571 as compared with $884,653 as of December 31, 2007.

Investment management fees for Philips Hager North, which are based on the total plan assets under management, are charged directly to the plan member.

Membership Status

Plan membership has increased from 26,889 accounts in 2007 to 28,410 accounts in 2008. The number of accounts includes both active participants and terminated employees who have left their funds on deposit with Great West Life. Of the total number of accounts, 12,663 are members who contributed during 2008. Commencing in 2004, efforts were made to contact many of the account holders to advise them of their transfer options should they wish to move their funds from the plan. The following table details the change in membership from 2007 to 2008.

Membership Summary

		2008	2007
Opening Balance, January 1		26,889	25,350
Additions			
Enrolments during the year		3,578	3,172
Less			
Exits:	Terminations	1,931	1,509
	Death Benefits	25	29
	Retirements	101	95
	Total	2,057	1,633
Membership, December 31		**28,410**	**26,889**

FINANCIAL HIGHLIGHTS

Market Value

Employee contributions for the year totalled $10.6 million of which $295,000 were Additional Voluntary Contributions (AVC's). Plan members may deposit AVC's to the plan, subject to RRSP limitations under the *Income Tax Act*. These AVC's are not matched by the employer. An additional $176,000 was transferred to the GMPP from other pension plans. Employer contributions for the year totalled $10.2 million and investment income(loss) was $(25.9) million. The fund was significantly impacted by the global decline in the capital markets. As the GMPP is not required to provide audited financial statements, the statement of changes in Assets for the year ended December 31, 2008 is shown below:

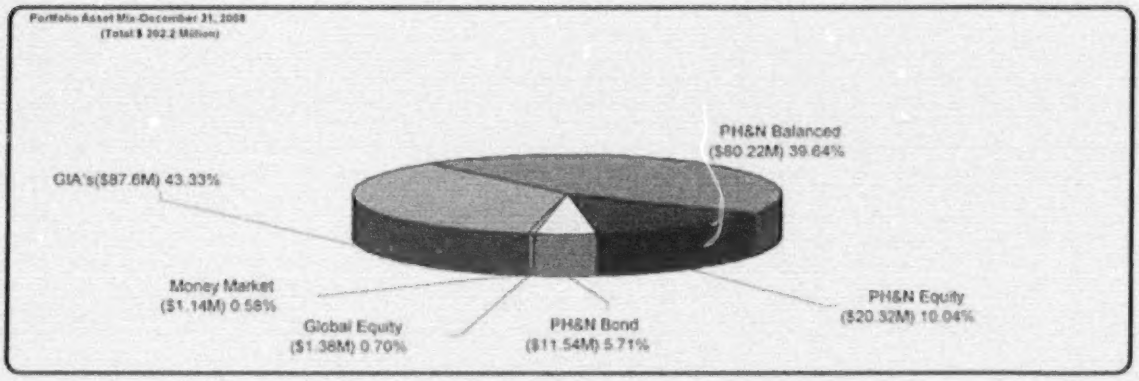
Statement of Changes in Assets for the Year Ended December 31, 2008

(Market Value)

	2008 (Millions)	2007 (Millions)
Opening Balance, January 1	$226.2	$218.7
Contributions to the Plan	20.8	20.6
Investment Income	(25.9)	4.2
Current Period Change in Market Value of Investments	(17.1)	2.7
Net Increase (Decrease) in net assets	(22.2)	27.5
Refunds to Terminating Plan Members	1.5	19.7
Administration Costs	0.3	0.3
Decrease in net assets	1.8	20.0
Total increase (decrease) in net assets	(24.0)	7.5
Market Value, December 31	$ 202.2	$ 226.2

Portfolio Asset Mix

Based on the asset decisions of plan members, the asset mix of the portfolio as of December 31, 2008 is illustrated in the following chart:



Investment Performance as of December 31, 2008

The following table details the performance of the GMPP market based funds to December 31, 2008:

Government Money Purchase Pension Plan (GMPP)
Summary of Investment Returns as at December 31, 2008
with Benchmark comparisons

Investment Options	Three Months %	Twelve Months %	Four Years Annualized % p.a.	Ten Years Annualized % p.a.
Balanced Pension Trust	-9.0	-17.5	0.6	3.8
Benchmark*	-8.9	-16.8	2.0	3.8
Canadian Equity Fund	-22.9	-34.5	-0.5	6.6
S&P/TSX Composite Index	-22.7	-33.0	1.7	5.3
Bond Fund	3.8	3.8	4.6	6.1
Dex Universe Bond Index	4.5	6.4	5.1	6.0
Global Equity Fund	-7.7	-23.9	-5.2	-
MSCI World ex Canada Index	-8.5	-26.0	-3.5	-3.0

* Current benchmark composition: 35% S&P/TSX Capped Composite Index, 25% MSCI World ex Canada Index, 35% Dex Universe Bond Index, 5% Dex 30-Day T-Bill Index.
Note: All performance data is shown on a gross or "pre-fee" basis. Fees for 2008 were approximately 17 basis points.

Asset Mix and Fund Performance information was extracted from the December 31, 2008 PH&N Fund Management Report

The year 2008 was challenging for investors with equity markets losing significant value. With the exception of the Global Equity Fund which exceeded the benchmark by 2.1%, the PH&N funds underperformed the relevant index. The balanced trust underperformed by 1.3%; the Canadian Equity Fund by 1.5% and the Bond Fund by 2.6%.

ACTIVITIES

Issues

The GMPP is a capital accumulation plan where employee contributions, together with the employer match, are deposited to individual accounts. The employee has the option to allocate these contributions to a variety of investment vehicles including a balanced fund, an equity fund, a bond fund, a global fund and guaranteed investment accounts with various maturities. The amount that will accumulate to the employee's credit and that will be available to provide income at retirement is dependent on the investment option selected by the employee.

With the assistance of the plan custodian, employees are provided with the tools to evaluate their risk tolerances and to assist with selecting the best investment vehicle(s) to meet their needs. Many employees are content to let their funds remain in the lower return guaranteed option. While this may be a suitable investment for certain employees, it is evident from the asset mix of the GMPP portfolio that many employees are not seeking advice with respect to their accounts.

The Committee has endeavoured to engage employees in the process by offering annual education seminars across the province. Participation in these sessions has been low, but increasing slightly year over year. The main objective is to increase attendance at these seminars, with a long term view to improving investment selection. At some point, if employee interest in their plan does not improve, the Committee may have to look at alternative measures to ensure that the funds are invested in a prudent manner.

Objective:

By December 31, 2008, more employees will have made an investment selection with respect to their GMPP funds.

Measure: Rate of investment selection by members increases.
Indicator: More than 50% of plan members' contributions are invested in Guaranteed Investment Accounts.

2008 RESULTS

The rate of investment selection increased slightly in 2008, with the percentage of employees in the plan making an active investment decision with respect to their investments increasing by 1% from 2007 to 2008, from 35% at December 31, 2007 to 36% in 2008. The number of members making an active investment decision increased by 762 from 2007. However, with just over 43% of total member assets still in the guaranteed investment accounts, it is clear that most members are not taking an active interest in their investments.

One of the main reasons for the slow growth in the numbers of employees making active choices may be attributed to the nature of the employment of members. Many members of the GMPP work part time and view participation as a temporary situation until they can find full time employment in the public sector and join one of the full time pension plans. For similar reasons, employers in the GMPP are more reluctant to support the various communications initiatives and provide participating employees with time to attend the annual seminars.

2009 OBJECTIVE

By December 31, 2009, the number of employees who have made an investment selection will have increased from the previous year.

Measure: Rate of investment selection by members increases.
Indicator: Number of information sessions conducted at locations most beneficial to plan members for the purposes of increasing attendance.

CHALLENGES AHEAD

Plan Member Education

The primary focus for 2009 will continue to be plan member communication and education. Many plan members are reluctant to make active investment decisions with respect to their accumulated funds. This is evidenced by the high percentage of investments in the Balanced Funds and guaranteed investment accounts (GIAs), which are the funds to which employer and employer contributions, respectively, are allocated in the absence of plan member direction (default funds).

In order to improve plan member interest in the GMPP, officials of the Department of Finance and Great West Life will continue to offer seminars that will focus on the importance of investment selection. These sessions will be scheduled for the Fall of 2009. With a view to improving attendance, employers will be encouraged to host the sessions on site at locations most beneficial to plan members.

Evaluation of Default Investments

Another alternative under consideration by the committee is an evaluation of the default investments. Currently when a plan member neglects to pick an investment option, the employee's share of the contribution remains invested in the default investment - GIAs. The employer's share is invested in the balanced fund. The Committee, in consultation with its advisors, will be assessing other alternatives for the investment of the employer's share, particularly in the case of employee's who have met the vesting criteria under the plan.

CONTACT INFORMATION

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